

Pennington's

1975 ANNUAL REPORT
PENNINGTON'S STORES LIMITED



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FINANCIAL HIGHLIGHTS

	January 3, 1976	Change %	December 28, 1974
Sales	\$22,882,009	+19.4	\$19,169,423
Income after taxes	2,475,494	+31.8	1,878,495
Earnings per share	\$1.22	+31.8	\$.93
Working capital	4,730,933	+33.1	3,554,072
Working capital ratio	3.28 :1		2.78 :1
Dividends	810,800	+25.0	648,640
Dividends per share	40¢	+25.0	32¢
Number of stores	65	+12.0	58

Board of Directors

Sol Armel
Donald Carr, Q.C.
William Drevnig
Albert Sherman
Jack Sherman
Mark Vansittart

Officers

William Drevnig – *President*
Albert Sherman – *Vice-President and Secretary*
Sol Armel – *Executive Vice-President*
Jack Sherman – *Vice-President*
Emanuel Asher – *Vice-President, Retail Operations*
William Farewell, C.A. – *Treasurer*

Transfer Agent & Registrar

The Canada Trust Company

Auditors

Laventhol & Horwath

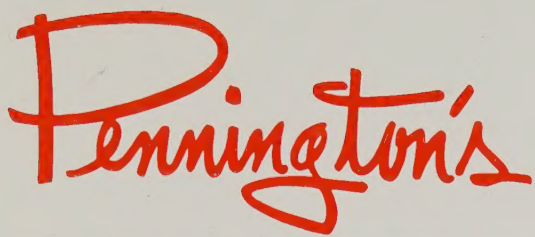
Exchange Listing

The Toronto Stock Exchange
Ticker PNS

Head Office

PENNINGTON'S STORES LIMITED
40 Samor Road
Toronto, Ontario M6A 1J6
Telephone : 787-4973





TO OUR SHAREHOLDERS

I am pleased to report that 1975 was another year of favourable growth in sales and net income for your Company. The financial results are most gratifying as a large part of the income in sales and profits was achieved through a strong performance from older established locations which is illustrated by an increase in average sales per store to \$372,100.

Financial Results

Total sales for the fiscal year ended January 3rd, 1976 were \$22,882,009, which represents an increase of 19.4% over 1974. Income before taxes rose from \$3,946,995 to \$4,972,994, an increase of 26.0%. The higher growth rate in pre-tax earnings reflects in part further head office operating efficiencies. Net income after providing for a lower income tax rate amounted to \$2,475,494 as compared to \$1,878,495 in 1974, while earnings per share increased from \$0.93 to \$1.22 based on the average number of shares outstanding during the year. The gain in net income for fiscal 1975 amounts to an increase of 31.8%. Dividends paid to shareholders during the year totalled \$810,800 as compared to \$648,640 in 1974.

In last year's annual report I indicated that in view of the slowdown in economic growth, management had decided to undertake a more moderate expansion programme in order to improve working capital liquidity. This plan has been accomplished with \$1,145,000 added to the Company's cash position which has strengthened the current ratio from 2.78:1 to 3.28:1. In addition, an improvement in inventory turnover was achieved from 5.1 to 5.7 turns.

Store Development

A total of eight stores were opened during the year, while one small outdated location was closed bringing a total of 65 stores in operation at year end. Capital expenditures totalled \$787,789 which was down slightly from the previous year. Two stores have been opened in the current year to date on Bloor Street, Metropolitan Toronto and Atlantic Place, St. John's, Newfoundland, while lease commitments have been made for two other locations in the second half of the year. A

number of other potential store situations are under consideration.

The Bloor Street store is a new merchandising approach for your Company. The merchandise emphasis will be an assortment of higher priced goods, balanced by some of the same merchandise as in other stores. In order to create the necessary atmosphere for this type of merchandise, we have designed this store in a more luxuriously appointed manner which is conducive to selling high quality fashion. This concept may be extended to a number of existing locations where feasible. Capital expenditures for 1976 are estimated at \$500,000 and will include the refurbishment of five existing locations.

Dividends

A tax-paid dividend of 40 cents per share was distributed to shareholders in 1975. The balance of 1971 undistributed income available for tax free dividends as defined by the Canadian Income Tax Act was largely used up last year. Therefore, future dividend payments will be subject to income tax. The Company's dividend policy has been to pay out approximately one-half of the previous year's earnings, however, the present Federal Anti-Inflation Legislation has placed a one year freeze on all corporate dividends. Your Directors will consider the question of future dividends in light of the 1975 financial results upon termination of the Legislation.

Outlook

During the current year, we expect a further moderate rate of expansion due to the limited number of prime locations that are available. Emphasis is being placed on achieving further operating efficiencies, upgrading a select number of existing locations and generating additional sales from older stores.

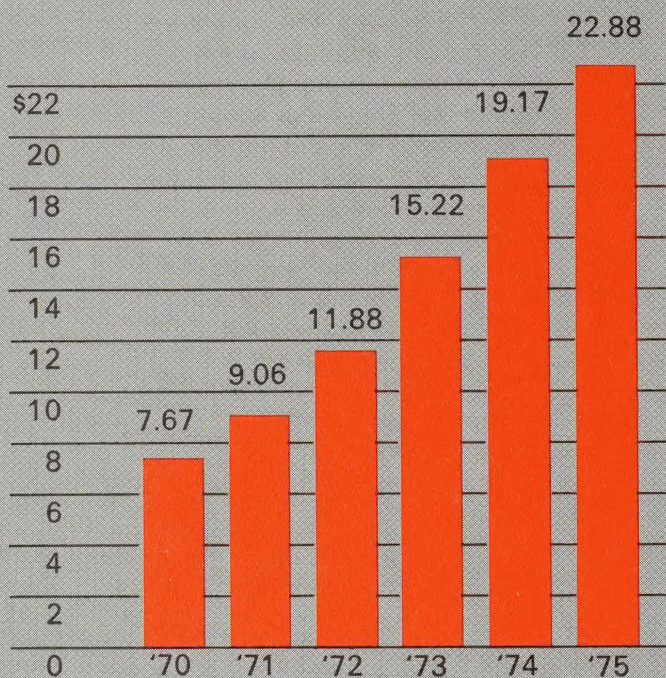
On behalf of your Board of Directors and Senior Management, I take this opportunity to express our appreciation to all our employees and suppliers whose support and co-operation contributed greatly to the year's results.

William Drevnig
William Drevnig
President



GROWTH OF SALES

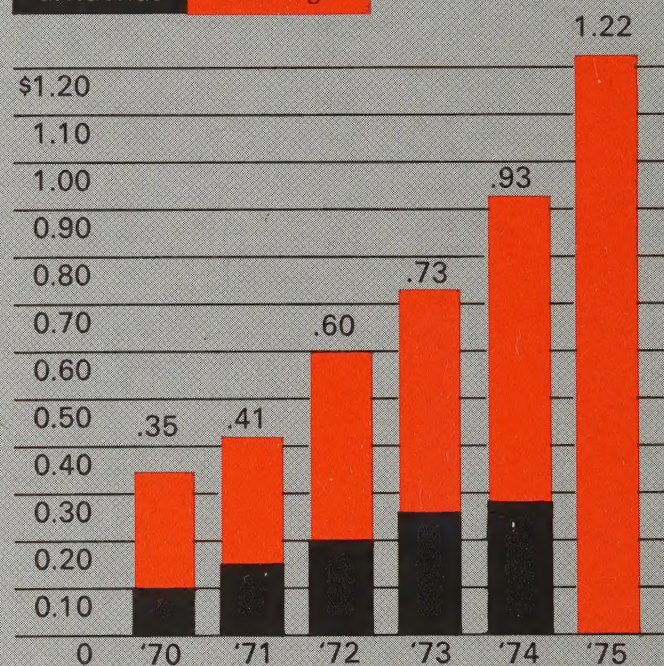
in millions of dollars



GROWTH OF EARNINGS PER SHARE

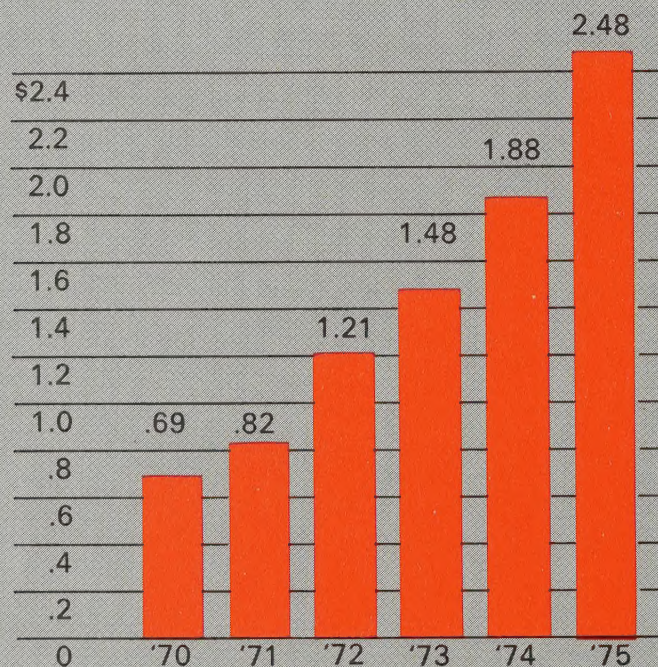
dividends

earnings



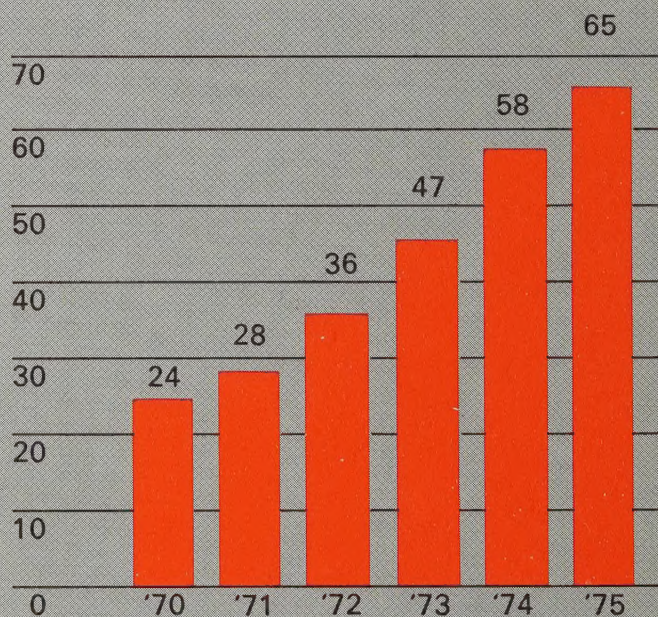
GROWTH IN NET INCOME

in millions of dollars



GROWTH IN NUMBER OF STORES

units in operation at end of year



STATEMENT OF INCOME

	<u>1975</u> 53 weeks ended January 3, 1976	<u>1974</u> 52 weeks ended December 28, 1974
Sales	\$22,882,009	\$19,169,423
Cost of sales, selling and administrative expenses	17,578,346	14,963,153
Depreciation	330,669	259,275
	<u>17,909,015</u>	<u>15,222,428</u>
Income before taxes	4,972,994	3,946,995
Income taxes	2,497,500	2,068,500
Net income	<u>\$ 2,475,494</u>	<u>\$ 1,878,495</u>
Earnings per share	<u>\$1.22</u>	<u>\$.93</u>

STATEMENT OF RETAINED EARNINGS

	<u>1975</u> 53 weeks ended January 3, 1976	<u>1974</u> 52 weeks ended December 28, 1974
Retained earnings, beginning of period	\$ 5,406,692	\$ 4,291,287
Net income for year	2,475,494	1,878,495
	<u>7,882,186</u>	<u>6,169,782</u>
Dividends (Note 4)	810,800	648,640
15% tax paid on portion of undistributed income	143,100	114,450
	<u>953,900</u>	<u>763,090</u>
Retained earnings, end of period	<u>\$ 6,928,286</u>	<u>\$ 5,406,692</u>



BALANCE SHEET

ASSETS	1975	1974
	January 3, 1976	December 28, 1974
Current:		
Cash and term deposits	\$ 2,042,363	\$ 897,582
Accounts receivable, trade	248,704	519,677
Accounts receivable, other	101,194	190,250
Inventories at lower of cost and net realizable value less normal profit margin	4,141,856	3,899,447
Prepaid expenses and sundry assets	199,256	44,391
Loan to employee (Note 2)	72,500	—
	<u>6,805,873</u>	<u>5,551,347</u>
Loan to employee (Note 2)	<u>—</u>	<u>80,100</u>
Fixed, at cost:		
Furniture and fixtures, leasehold improvements	4,096,062	3,339,991
Motor vehicles	49,703	39,888
	<u>4,145,765</u>	<u>3,379,879</u>
Less accumulated depreciation	<u>1,323,037</u>	<u>1,014,271</u>
	<u>2,822,728</u>	<u>2,365,608</u>
Excess of cost over book value of businesses acquired	<u>947,089</u>	<u>947,089</u>
	<u>\$10,575,690</u>	<u>\$ 8,944,144</u>

LIABILITIES

	<u>1975</u>	<u>1974</u>
	January 3, 1976	December 28, 1974
Current:		
Accounts payable and accrued liabilities	\$ 1,603,899	\$ 1,141,456
Income taxes payable	471,041	693,658
Dividend payable	—	162,161
	<u>2,074,940</u>	<u>1,997,275</u>
Deferred income taxes	<u>179,127</u>	<u>146,840</u>

SHAREHOLDERS' EQUITY

Capital stock (Note 3):		
Authorized:		
6,000,000 common shares, without par value		
Issued:		
2,027,000 shares	1,393,337	1,393,337
Retained earnings (Note 4)	<u>6,928,286</u>	<u>5,406,692</u>
	<u>8,321,623</u>	<u>6,800,029</u>
	<u>\$10,575,690</u>	<u>\$ 8,944,144</u>

On behalf of the Board:

William Drevnig
(Director)

S. Amel
(Director)



STATEMENT OF CHANGES IN FINANCIAL POSITION

	1975 53 weeks ended January 3, 1976	1974 52 weeks ended December 28, 1974
Financial resources were provided by:		
Net income	\$ 2,475,494	\$ 1,878,495
Expenses not requiring current outlay of working capital:		
Depreciation and amortization	330,669	259,275
Deferred income taxes	32,287	41,749
Working capital provided by operations	2,838,450	2,179,519
Issue of common stock for cash under employee stock option plan	—	4,800
Current portion of loan to employee	72,500	—
Repayment received on loan to employee	7,600	6,200
	<u>2,918,550</u>	<u>2,190,519</u>
Financial resources were used for:		
Purchase of fixed assets (net)	787,789	821,744
Dividends	810,800	648,640
15% tax paid on portion of undistributed income	143,100	114,450
	<u>1,741,689</u>	<u>1,584,834</u>
Increase in working capital (Note 5)	1,176,861	605,685
Working capital, beginning of period	3,554,072	2,948,387
Working capital, end of period	<u>\$ 4,730,933</u>	<u>\$ 3,554,072</u>

AUDITORS' REPORT

To the Shareholders of
Pennington's Stores Limited

We have examined the balance sheet of Pennington's Stores Limited as at January 3, 1976 and the statements of income, retained earnings and changes in financial position for the 53 weeks then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at January 3, 1976, and the results of its operations and the changes in financial position for the 53 weeks then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Toronto, Ontario,
March 26, 1976.

Laventhol & Horwath
Chartered Accountants.

NOTES TO
FINANCIAL STATEMENTS

January 3, 1976

1. Accounting policies :

The accounting policies of the company are in accordance with generally accepted accounting principles and are applied on a consistent basis. The following is a summary of the significant accounting policies followed in the preparation of these financial statements :

(a) Inventories :

Inventories are priced at the lower of average cost and market determined by the retail method ; market being net realizable value less normal profit margin.

(b) Fixed assets :

Fixed assets are stated at cost ; depreciation is being provided at the following annual rates :

Furniture and fixtures	– 10% straight-line method
Leasehold improvements	– 10% straight-line method
Automobiles	– 30% reducing balance method

Profits or losses arising on the disposal of assets are included in income for the period in which the profit or loss arose. Maintenance and repair expenses are written off in the period the expenditure is incurred.

(c) Income taxes :

The company follows the allocation method of reporting taxes on income. Under this method, recognition is given in the accounts to the tax effects of the annual difference between reported income and taxable income which results from the company claiming for income tax purposes depreciation in excess of amounts reported in the accounts.

(d) Intangible assets :

In 1969 the company acquired the net assets of the businesses carried on by certain stores throughout Western Canada for an amount in excess of their book values. This excess is not being amortized as in the opinion of management it has continuing value.

(e) Earnings per share :

Earnings per share are based on 2,027,000 shares outstanding during the year. On the assumption that all options outstanding at the end of the year were exercised, there would be no significant dilution of basic earnings per share.

2. Loan to employee :

In 1972 the company loaned \$94,500 to a senior employee without interest and the loan proceeds were used for the subscription of 20,000 shares of the company’s capital stock. This loan is to be outstanding during his employment, but, in any event, is to be repaid by October 31, 1976 and is secured by a pledge of these shares. As at January 3, 1976, \$22,000 had been repaid.

3. Capital stock :

A total of 39,500 shares are reserved for issue under the employees’ stock option plan. As at January 3, 1976 the following options were outstanding :

	Number of shares
Options at \$4.6125 per share, expiring April 18, 1976	2,000
Options at \$9.90 per share, expiring November 14, 1978	2,500
Options at \$9.00 per share, expiring August 22, 1980	1,500
	<u>6,000</u>

4. Retained earnings :

Retained earnings at January 3, 1976 includes \$42,108 of 1971 undistributed income on hand as defined by the Canadian Income Tax Act. This tax surplus can be distributed tax free to the shareholders after payment by the company of a 15% tax thereon. 1971 Capital surplus of \$2,471 also included in retained earnings can be distributed tax free only after all the required tax has been paid on the 1971 undistributed income.

During the year the company converted \$954,000 of 1971 undistributed income into tax-paid undistributed surplus by the payment



of a 15% tax of \$143,100 and distributed \$810,800 to the shareholders by way of tax-paid dividends.

5. Change in components of working capital :

	<u>1975</u>	<u>1974</u>
Increase (decrease) in current assets :		
Cash	\$1,144,781	\$160,505
Accounts receivable, trade	(270,973)	89,577
Accounts receivable, other	(89,056)	53,970
Inventory	242,409	325,905
Prepaid expenses and sundry assets	\$ 154,865	\$ (3,167)
Loan to employee	72,500	—
	<u>1,254,526</u>	<u>626,790</u>
Increase (decrease) in current liabilities :		
Accounts payable and accrued liabilities	462,443	(266,651)
Income taxes payable	(222,617)	267,373
Dividend payable	(162,161)	20,383
	<u>77,665</u>	<u>21,105</u>
Increase in working capital	<u>\$1,176,861</u>	<u>\$605,685</u>

6. Long-term leases :

Long-term leases entered into by the company for the rental of store locations and warehouse facilities extend into the year 1991. The company has also entered into lease commitments for four new store locations. The majority of the store leases provided for payment to the lessor of a percentage of sales. Minimum annual rentals payable and estimated percentage rent payable where leases do not provide for minimum rents (exclusive of taxes and other occupancy charges) will aggregate approximately \$1,700,000 during 1976.

7. Remuneration of directors and senior officers :

Direct remuneration paid to directors and senior officers of the company amounted to \$293,800 (1974 — \$280,400).

8. Comparative figures :

1974 comparative figures have been reclassified to conform with the 1975 presentation.

9. Anti-Inflation Program :

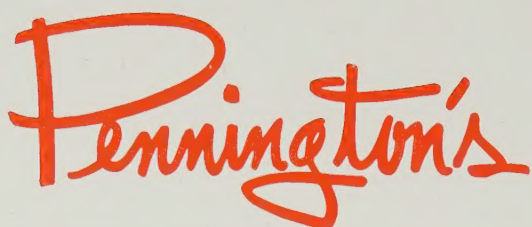
The company is subject to the restraints on income, dividends and compensation provided by the Anti-Inflation Act. This legislation with respect to income and compensation is effective from October 14, 1975 and is scheduled to be in force until December 31, 1978.

Due to the continuing uncertainties regarding the interpretation of certain regulations the effect of the legislation on company policy and future earnings cannot be determined at this time.



Artist's rendering of ne
Bloor Street Store





STORE LOCATIONS

2850 Dundas St. W.
Toronto, Ontario

231 Yonge Street
Toronto, Ontario

Lawrence Plaza
Toronto, Ontario

Rexdale Plaza
Rexdale, Ontario

Shopper's World Plaza
3003 Danforth Ave.
Toronto, Ontario

Yorkdale Shopping Centre
Toronto, Ontario

The Centre
Hamilton, Ontario

Polo Park Shopping Centre
Winnipeg, Manitoba

Place Laurier
Ste. Foy, P.Q.

Place Ville Marie
Montreal, P.Q.

Dorval Gardens Shopping Centre
Dorval, P.Q.

St. Laurent Shopping Centre
Ottawa, Ontario

Shopper's Park – Westmount
Edmonton, Alberta

Les Galeries D'Anjou
Ville D'Anjou, P.Q.

Halifax Shopping Centre
Halifax, Nova Scotia

Chinook Ridge Shopping Centre
Calgary, Alberta

Wellington Square Centre
London, Ontario

Hillside Shopping Centre
Victoria, B.C.

Midtown Plaza
Saskatoon, Sask.

Park Royal Shopping Centre
West Vancouver, B.C.

Southgate Shopping Centre
Edmonton, Alberta

Fairview Mall
Willowdale, Ontario

Garden City Shopping Centre
West Kildonan, Manitoba

Sherway Gardens
Etobicoke, Ontario

City Centre
Sudbury, Ontario

Centre D'Achat Les Rivières
Trois Rivières, P.Q.

Quinte Mall
Belleville, Ontario

Brentwood Mall
Burnaby, B.C.

Surrey Place
Surrey, B.C.

Orchard Park Shopping Centre
Kelowna, B.C.

Londonderry Mall
Edmonton, Alberta

Centre Laval
Laval, Quebec

Alexis Nihon Plaza
Montreal, Quebec

Les Galeries Hull
Hull, Quebec

3711 Keele Street
Downsview, Ontario

Eastgate Square Shopping Centre
Stoney Creek, Ontario

Bramalea City Centre
Bramalea, Ontario

Scarborough Town Centre
Scarborough, Ontario

Bayshore Shopping Centre
Ottawa, Ontario

Richmond Centre
Richmond, B.C.

Carrefour De L'Estrie
Sherbrooke, Quebec

Mic-Mac Shopping Centre
Dartmouth, N.S.

Mississauga City Centre
Mississauga, Ontario

Station Mall
Sault Ste. Marie, Ontario

Georgian Mall
Barrie, Ontario

Tecumseh Mall
Windsor, Ontario

Le Carrefour Laval
Laval, Quebec

Place Quebec
Quebec City, Quebec

215 McDermot Avenue
Winnipeg, Manitoba

Upper Canada Mall
Newmarket, Ontario

Lynden Park Mall
Brantford, Ontario

Park Street Plaza
Thunder Bay, Ontario

Devonshire Mall
Windsor, Ontario

Champlain Place
Moncton, N.B.

Market Square
Kitchener, Ontario

Burlington Mall
Burlington, Ontario

Pine Centre
Prince George, B.C.

Peterborough Square
Peterborough, Ontario

Pacific Centre
Vancouver, B.C.

Place Vertu
St. Laurent, Quebec

Lethbridge Centre
Lethbridge, Alberta

Edmonton Centre
Edmonton, Alberta

Gerrard Square
Toronto, Ontario

Unicity Fashion Square
Winnipeg Manitoba

Seven Oaks Shopping Centre
Clearbrook, B.C.

Atlantic Place
St. John's Newfoundland

151 Bloor Street West
Toronto, Ontario

Oxford Square
Calgary, Alberta
(opening 1976)

Marlborough Mall
Calgary, Alberta
(opening 1976)
